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SUBJECT: IRAN: BUSINESSMEN POST-ELECTION: THINGS HAVE COME TO A HALT

CLASSIFIED BY: Timothy Richardson, Acting Director, Iran
Regional Presence Office, Department of State.
REASON: 1.4 (b), (d)

¶1. (C) Summary: Several Iranian business contacts told IRPO that business was on hold in the aftermath of the election, and all doubted that their businesses could survive much longer. Goods are not clearing customs, clients are not placing orders, no money is moving out, revenues are falling, and traditional money movers such as sarafs are not exchanging money. The post-election turmoil has exacerbated financial difficulties they are experiencing due to the global recession, sanctions, and commercial pressure on Iran over the nuclear issue. Our contacts noted that diminished unrest may help business return to normal, but they no longer had hopes for private-sector development in the next four years. Accordingly, some lamented that because they can not afford to run their business under sanctions and face unfriendly treatment from the state, they may undertake other lines of business or leave Iran. End summary.

Hard Times Getting Harder

¶2. (S/NF) A regular IRPO contact who owns a Tehran-based factory employing 1,000 Iranians on July 9 told us that he feared that his business would not survive past two weeks if the uncertain business climate continued. Although Iranian ports were receiving shipments, goods were not clearing customs, and they were building up at the ports. Our contact said he has limited his stock to less than two weeks' worth of inventory and has run out of some raw materials because of customs delays. The only thing keeping him in business is the trade at the Iraqi border. Ease of getting products into Iraq and trade with the Kurds are providing his company with much needed liquidity. His normal monthly revenue of USD 1.39 million trading this way, nevertheless, has only netted USD 278,000 to USD 417,000 so far in July. His suppliers are pressuring him to increase turnover, but he has told them there is nothing he can do.

¶3. (C) Establishing trust with Iran's state apparatus has become the most important tool in our contacts' attempts to remain in business. IRPO contacts working with Iranian brokers as of last week had found it increasingly hard to move their goods out of Tehran's Bazaar. An Iranian businessman in the steel sector said July 7 that he had recently discovered that a consignment of Chinese steel he sent to Tehran's Bazaar before the election had not been released because of, according to his distributor, political turmoil. Moreover, domestic importers were very

reluctant to sign contracts without a significant level of trust. Along with bazaari and distributors, the importers were not interested in establishing new relationships because of the political uncertainty. Domestic and international business, according to him, was on hold and he was finding it very difficult to make a living because "there [was] nothing going on."

Credit Tightens

14. (C) Iranian businessmen also as of last week were struggling to move money. The factory owner has returned several times to Tehran, most recently to try to secure financing. Normally, Iranian businesses used Iranian banks and sarafs, which increasingly were necessary because of US, UN, and EU sanctions on Iranian banks. He maintained, however, that it had become very expensive to use sarafs since the election because they were constantly increasing their surcharges and some were reluctant to release their US dollar holdings. His factory has been unable to transfer money out of Iran.

15. (S/NF) US, UN, and EU restrictions on Iranian banks and financial pressure over Iran's nuclear issue have made this problem particularly prescient during the post-election period. Sanctions have limited our contacts' businesses' ability to obtain credit from Iranian banks, which are themselves increasingly unable to afford to issue credit. Several businessmen explained that it has become all the more crucial to

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establish new relationships and levels of trust with state bank managers in order to conduct business. The factory owner recounted the many times he has had to court state bank managers to provide credit. He has started with small loans, but hopes in time this will grow.

Potential Political Retaliation

16. (C) The factory owner told us that he and his business acquaintances feared that the state will begin discriminating against businesses owned by people thought to be affiliated with the opposition, for example, by making it harder for them to establish credit and obtain loans and licenses by raising fees, extending waiting periods, and red tape. The factory owner thought this will abate eventually, but his other business acquaintances disagreed. This concern, according to him, has contributed to an overall feeling of hopelessness among the business community for Iran's economic development. Many IRPO contacts have maintained they were optimistic about opportunities to interact with the US before the election, but they are now considering leaving Iran or pursuing other business opportunities.

17. (S/NF) Comment: Our contacts' experiences suggest that the private sector will continue to struggle under Ahmadinejad's presidency. This is not likely to translate into contempt for the regime however, as many Iranian businessmen have said they are more likely to leave Iran or seek other business ventures than channel their frustrations politically. The recent experiences of our business contacts underscore sanctions'

potency in combination with Iran's mismanagement and highlight their negative impact on the private sector. Accordingly, state domination of the economy somewhat insulates the regime from the woes of the private sector. In the interim, our contacts will continue to struggle for survival amid the economic and political uncertainty, with some expressing the hope that the relatively limited July 9 protests may soon revive economic activity.

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